

THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D. C. 20505

27 January 1982

National Intelligence Officers

MEMORANDUM FOR: Dr. Norman A. Bailey
National Security Council

FROM: Maurice C. Ernst
National Intelligence Officer for Economics, CIA

SUBJECT: Romania's Balance of Payments and Debt Problems

As per your request, attached is some material on Romania's balance of payments and debt problems. Romania clearly is unable to meet its financial obligations. To do so would require cuts in imports so severe as to force substantial declines in industrial production, such as occurred in Poland. The Romanians have already squeezed all the consumer goods they can out of the economy, and this has occasioned some sporadic unrest.

The receipt of a \$65 million CCC credit would fill only a small part of the balance of payments gap. They would probably use such a credit to free up foreign exchange with which to pay interest on debt and perhaps repay those creditors they cannot put off.

The prospects of such a credit being repaid would be poor. There is little chance that the Romanian economy will substantially turn around in the next two or three years, and next to no chance it will generate large new sources of foreign exchange earnings. Their oil fields, traditionally a large source of hard currency earnings, are at a late stage of development and declines in production are probably inevitable. Romania hopes to further diversify its hard currency exports, but has had little success to date.

Maurice C. Ernst

Attachment,
As stated

CONFIDENTIAL

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DCI/NIC/NIO/Economics:MCernst:bha(27 Jan 82)

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Distribution:

Orig - Dr. Norman Bailey, NSC (LDXed) (w/att)

1 - [] EURA/EE/SE (w/o att)

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2 - NIO/Econ. (w/att)

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27 January 1982

MEMORANDUM FOR: National Intelligence Officer for Economics

FROM: [REDACTED] EURA/EE/SE

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SUBJECT: Romanian Difficulties in Meeting
Debt-Service Obligations

1. Romania will continue to have difficulties in meeting debt service obligations on its estimated hard currency debt of \$10 billion. Bucharest has placed its needs for 1982 at \$4.5 billion, including \$2 billion in principal on medium- and long-term debts, a \$.5 billion current account deficit, \$.6 billion for short-term credits, \$.3 for building up reserves and extending credits, and \$1.2 billion in arrearages from 1981. Projected sources of finance fall far short of needs. Bucharest hopes to secure approximately \$2.45 billion, consisting of \$.75 from the IMF and World Bank, \$1.2 billion in supplier credits, and \$.5 billion from "other sources" (probably a balance of payments loan from Arab financial institutions). The financial gap could prove to be even larger than the \$2.05 billion presented by Bucharest. Holding the current account deficit to just \$.5 billion will be difficult as Bucharest encountered serious domestic problems in slashing the 1980 current account deficit of \$2.4 billion by \$1 billion last year. Furthermore, supplier credits may not be as readily available until the arrearages are cleared up.

2. Rescheduling is currently under way with Western bankers, but reaching an agreement will be difficult. [REDACTED]

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3. Romania faces hard times even if rescheduling takes place. Its principal hard currency exports are hindered by the soft world market for petroleum products and by a second consecutive poor performance in the agricultural sector.

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Bucharest continues to push food exports despite the severe shortages at home. Most nonessential imports have been cut and import reductions are now affecting needed raw materials. Futher cuts in imports will have negative repercussions for domestic growth and already low living standards.

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